Hill, Ebenezer J.

Address...delivered before the Savings banks...

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ADDRESS

OF

HON. E. J. HILL,

Member of Congress from the State of Connecticut.

DELIVERED BEFORE THE SAVINGS BANKS ASSOCIATION OF THE STATE OF NEW YORK, AT THEIR ANNUAL MEETING, HELD IN NEW YORK CITY, WEDNESDAY, MAY 7, 1902.

ADDRESS

Mr. President and Gentlemen:

When the Japanese worshipper goes to the Buddhist temple in the city of Narra, in Japan, he has his prayers printed on slips of tissue paper, and, wetting them in his mouth, he throws them at the idol.

If they stick he goes away happy, believing that the prayers are answered.

So I am here to-day to fling some thoughts at you from this manuscript, in the firm belief that if I can make them stick in your memory, somewhere and somehow, the answer will come in a sounder currency and a better banking system for our beloved country.

My subject will be House Bill 13,363, entitled "A Bill to Maintain the Gold Standard, Provide an Elastic Currency, Equalize the Rates of Interest throughout the Country, and Further Amend the National Banking Laws."

While we may not all agree concerning every feature of this measure, of one thing I am sure, that, representing as you do more than two million depositors in this State and over a billion in amount of the savings of your people, you not only strive to guard with jealous care and keep in perfect safety the trusts committed to you, but when the savings of the past are called for in times of stress and sore necessity, *your duty* and your pride as well, will lead you to meet those calls with money that is good the world around and with the highest purchasing power everywhere.

In one respect you are the eyes and ears and brains for nearly one-third of the population of this State.

So far as deposits are made for investment purposes, they are a tribute to your sagacity, and their great increase a testimonial to the confidence which is placed in you; but the weekly savings which are entrusted to you represent the vigor and strength of active life which are stored and held till age and weakness make their use imperative, and any shrinkage in the purchasing power of the money which measures *these*, means just so much less of comfort and so much more of deprivation when old age comes.

It is, therefore, to the everlasting credit of the Mutual Savings Banks of this State, that when the kind of money in which those deposits should be paid became a disputed political question in '96, you promptly declared, "that in our judgment the future prosperity of the country and the welfare of the people demand not only that the gold standard shall be maintained, but the currency system now in use shall be so changed and remodeled as to meet and adapt it to the increasing needs of commerce, and equal in security and credit with the best in circulation by any of the civilized nations of the earth."

In the House of Representatives the Committee on Rules often bring in a rule, that a certain subject shall be made a "continuing question until disposed of," and I take it that this resolution was one of that kind; that what you said in '96 you mean to-day, to-morrow, and all the to-morrows in the future.

Now let me tell you what has been done to carry that resolution into effect.

Then the only dangerous feature of our currency system was fiat money.

Then we had $346,681,016 of greenback promises to pay. Every dollar of it is still outstanding.

Then we had 401,688,649 silver dollars, worth 522-10ths cents each, but legal tender for one hundred cents.

Now we have 534,606,654 silver dollars outstanding, worth about forty-one cents each, and are steadily coining a million and a half a month and have been doing so from that day to this, and unless legislation is had forbidding it, will continue to do so till the aggregate will be 570 millions.

Since you passed your vote not one dollar of the demand notes has been canceled, and no provision whatever has been

made for maintaining the parity of our enormous mass of silver. Indeed, so far as legislation is concerned, barring the right to issue three per cent. certificates of indebtedness given in the War Revenue Act, the Treasury Department has less power than it had prior to the Act of March 14, 1900, to maintain the parity with gold of all forms of money.

That act, in its first section, did declare that 258-10ths grains of gold 9-10ths fine should be the standard unit of value, but in its last section it proclaimed Senatorial faith in international bimetallism.

It did increase our gold reserve from one hundred to one hundred and fifty millions; but where, under the old law, all of it could, in the discretion of the Treasury, be used before the signal of distress in the shape of bond issues was put out, now such use is limited to fifty millions, and I need not say to a convention of bankers that a reserve which can under no conditions be used, is a delusion and a snare.

It did, perhaps, strengthen the position of the greenback by restricting to this one form of currency all of the powers which the Treasury before possessed to maintain all our money at parity with gold; but, in so doing, left a much larger amount of silver stark naked and alone to maintain itself by use, with the confidence of the people as its only redeemer.

I take the position here to-day that the United States has no more right to put in circulation any form of legal tender money which it will not redeem in the money of the standard which it has itself proclaimed than an individual has to issue his note with the deliberate intention of defaulting in its payment.

No good reason can be given why the greenback, which is all fiat, should be redeemed in gold, and the silver dollar, which is more than half fiat, should not be also.

Indeed, the only excuse—for there is no reason—which can be offered is that it would be dangerous, and that it would increase the so-called "endless chain," and so prove a burden which the Treasury could not carry.

The claim refutes itself, for the silver dollar is a legal tender for all dues to the Treasury, and Hon. Lyman J. Gage, who filled the position of Secretary of the Treasury with an ability equaled by few men in our country's history, told the simple truth when he said, "The Government might just as well face the redemption at the front door as to delay until it

must take it under the revenue laws at the back door." The danger is ever present in our financial system, and it is far safer to find it out and be prepared for it than it is to ignore it and have it find us unprepared, as it did in '93.

God, in His goodness to us as a nation, has given us splendid crops and an abounding prosperity, and the miner, with his pick and shovel, has more than doubled our stock of gold since then, and so shielded us from the otherwise inevitable result of our foolish financial policy; but Congress has had little to do with either of these causes, and, indeed, so far as effective financial legislation is concerned, has been practically content to let things drift, and will be so content in the future, unless an aroused public opinion shall demand some action or adversity shall come again to compel it.

Do you doubt it?

The late Comptroller of the Currency, in a speech a few days ago, used this language:

"The adoption of asset currency would involve the reorganization of the entire banking business of the country, and this, of course, is not to be thought of during times of prosperity. Those things are best done during periods of adversity, when a little uncertainty added to the total cannot influence business much for good or bad."

It may be that this is good policy and good politics as well, but I do not think it is either; for when trouble does come, as come it will, the people will hold the party in power to a strict responsibility for failure to prepare for it when they had the opportunity.

Many years ago the wise man said: "A *prudent* man *foreseeth* the evil and hideth himself, but the *simple* pass on and are punished."

I commend this proverb, with all that it implies, not only to those who, having given little thought to the question, are content to "*let well enough alone*," but especially to those who, fully realizing the situation, are indifferent to it because a Congressional election is approaching. Is the currency system of the United States always to be a political football, only to be kicked back and forth between the parties, and, when the game is finished, to be laid away as a trophy of victory, battered and bruised and soiled with the dirt of party conflict?

Three months ago the National Board of Trade recommended

"that Congress enact such legislation as may be necessary to put this country on a permanent gold basis," and by specific votes declared that the retirement of the greenbacks and the exchangeability of the silver dollar for gold were essentials to that end.

On the 5th of March the New York Chamber of Commerce, upon an elaborate report prepared by John Harsen Rhoades, Henry W. Cannon, E. H. Perkins, Jr., August Belmont and George G. Williams, unanimously voted that "the first stone in the foundation of the structure of national credit is the inviolate character of its unit of value, and now is the time to complete the Act of March 14, 1900," and to that end favored the exchangeability of the silver dollar with gold.

And yet, since the 13th of January, a bill to that end has been upon the House calendar, and cannot be touched because, forsooth, some Republicans who voted for it two years ago now fear that the agitation of the silver question will hurt them in their districts this fall, and some Democrats, who were driven by public sentiment to cast a like vote then, now say that political conditions have changed.

When you add to this the fact that one great committee of the House of Representatives has reported a bill deliberately putting the government of the Philippine Islands into the banking business to maintain the parity of a full legal tender silver coinage at a ratio of two for one, and *that coinage* issued with the openly avowed purpose of perpetuating the wage system of the Islands on its present silver basis, and *then supplement these things* by a report of the Senate Committee on the Philippines in favor of the unlimited coinage of a full legal tender silver dollar on private account as the currency system of the Islands, and add to that, that this dollar may be coined in San Francisco from American bullion, with the great probability that it will enter into American circulation precisely as the trade dollar did, is it not high time that the sound money men of the United States should demand from their Representatives and Senators, and their President and Cabinet, that the overwhelming victories of '96 and 1900 for honest money and a sound financial system should not be frittered away and go for naught?

Gentlemen, there is no room in a gold standard system for fiat money.

It must either be paid and canceled or the responsibility for

its current redemption squarely assumed by the issuing power. And when the Government does this it, in effect, gives notice to all the world that it will furnish all of the gold required for international trade, for it has no control of interest rates, and cannot check demand as a bank can by raising the price of discounts.

With fiat money in circulation there is neither place for nor safety *in a bank note issue "adapted to the increasing needs of commerce,"* to use the language of your resolution of five years ago, for every bank note practically becomes a sight draft upon the Treasury reserve of gold, and every bank will look to the Treasury for relief in time of panic, as they have been doing for thirty years, even when their notes have not been made redeemable in gold.

The financial barometer of this country to-day is the accumulation of gold in the Government Treasury, and we watch each day for its rise and fall.

Every dollar of it above a fair working balance should be employed in the industries of the country, and is so used by every one of our commercial rivals.

Who thinks of looking at the Treasury holdings of any European country to judge of the possibilities of a panic?

It is the business of the banks there to safeguard and keep sufficiently abundant the supply of redemption money. And it should be here, but it never will be till the demand notes of the Government are eliminated from our system.

It is fiat money which has made impossible every scheme for the improvement of our banking system since the Civil War.

It was this which paralyzed the excellent plan of Hon. Joseph H. Walker, for he was compelled to propose a heavy penalty tax upon the deposits of all the banks of the country to force them to maintain the parity of all our moneys, which of course was impossible unless they could control the amount which the Government should issue.

It was this which made hopeless the plans of Carlisle and Gage, and the Monetary Commission, and *it is this* which complicates the Fowler Bill and brings its intrinsic benefits to the country far too slowly for the country's good.

The greenbacks should be paid and the ultimate retirement of the legal tender silver dollar provided for now, and meanwhile made exchangeable for gold.

It could be done, as Mr. Gage said to the Banking and Currency

Committee, "without making a ripple upon the financial surface of the country."

He had the power and courage to do it, but Congress would not permit it.

Charles S. Fairchild had the courage but not the power.

If this was done, a bank note issue redeemable in gold could be provided which would respond to every legitimate trade requirement and by its economy save to the business interests of this country in the next five years more than the amount of the entire volume of the outstanding greenbanks.

Think of the difference between a greenback and a bank note. *So far as the issuing* is concerned, the greenback has absolutely no relation to trade and commerce, for the Government borrows but never lends, and cannot issue currency except to pay an existing debt which represents past consumption as the greenback represents debt incurred in the Civil War.

When the greenback is issued there is no returning stream of assets to provide for its redemption, and it is in essence the equivalent of an individual note perpetually renewed. But a bank lends and is not supposed to borrow except from its depositors, and when it issues *its* note, it swaps *its* credit for *its* customers' *credit*, and at the *time of issue* receives back something which it can use to cancel its own obligation when it is presented for redemption.

One deals with the past and pays for "*horses*" which are eternally dead, the other with the future and buys live and productive assets.

Two reasons are given for the continued existence of the greenback:

First—That it is a loan without interest.

Second—The sentimental one that it saved the nation in the Civil War, and must now be held as sacred as a soldier's grave.

For reply to the first I cite you to the report on the pending bill on page 7, where the Treasury Actuary clearly proves that the cost to the Government of maintaining the greenback since resumption in '79 has been nearly 7 per cent. per annum.

For reply to the second I have no recollection that the "*Grayback*" of the Confederacy had any such effect upon its fortunes, and am therefore compelled to believe that the *resources* of the North rather than its *liabilities* were the deciding factor in that conflict.

The fact is that we are flying in the face of the experience of the whole commercial world by maintaining a system of fiat money, and this bill recognizes that and proposes to get back slowly but surely to the solid ground of gold as the legal tender, silver as subsidiary coin, and bank notes as the instruments of trade.

Then deficits may come and surpluses may go, but the money of the people will be unchanged and unchangeable.

Then the ghost of parity will no longer haunt our sleeping hours, and the Governmental relation to commercial interests will be one of taxation only.

The bill proposes first, to stop the further coinage of the silver dollar, to use the bullion remaining in the Treasury for subsidiary coin, and when public necessities require more, to begin the re-coinage of the dollar into subsidiary.

The Committee believe that with our rapidly increasing population the whole amount can in time be converted into change money and held in daily use among the people, and with the greenbacks retired, with no bank notes below ten dollars and silver certificates restricted to five dollars, it can be safely carried.

It has been strongly urged that the United States should follow the example of Germany and Japan, in melting down and selling all of our legal tender silver which is not in actual circulation, but this means assuming a loss of fifty-nine cents on every dollar so treated, and re-coinage means a nominal gain of about seven cents on every dollar which can be permanently held in circulation.

The difference between the two plans would aggregate about three hundred million dollars.

The second feature of the bill providing for the Maintenance of the Gold Standard, is the retirement of the greenbacks.

In my judgment this should be by the direct and independent action of the Treasury, for they are a Government debt and in no sense a bank obligation.

The complications which are certain to arise by throwing a part of this burden upon the banks are wholly unnecessary, and there is no essential relation, even in point of time, between the withdrawal of the greenback and the issue of the bank notes, for whenever a greenback is paid, a gold dollar will go into circulation and the bank note is only a credit instrument

and not a legal tender; but the Committee thought that it would be politically wise to induce the banks to assume the current redemption of such an amount as could not be canceled with the gold now in the Treasury, and in that way divest the Treasury more promptly of its banking functions, even if it did delay the date of their entire payment somewhat longer.

It is proposed that any bank which shall assume the current redemption in gold of greenbacks to the amount of twenty per cent. of its capital, shall have the privilege of issuing within two years thereafter a like amount of bank notes redeemable in gold over its own counter, and at some clearing house or agency in a clearing house city, and such notes shall not require a previous deposit of bonds and shall bear a tax of but one-fourth of one per cent. per annum. The greenbacks thus assumed for current redemption will have the endorsement of the separate banks, and each bank must hold itself ready to currently redeem its respective share in gold, either over its own counter or by immediate reimbursement to the Government if redemption is demanded at the Treasury. These greenbacks so assumed are to be finally paid by the Treasury from a fund derived from taxes on all bank note circulation, and the interest on deposits in national banks of all Government funds in excess of a working balance of fifty million dollars, which deposits the bill prescribes shall hereafter be covered by Government bonds at par and shall bear an interest charge of one per cent., but no reserve is to be held against them.

Concurrently with the assumption of the greenbacks referred to, the banks shall present an additional ten per cent. to the Treasury for immediate payment and cancellation and receive the gold therefor.

With sixty-five million greenbacks paid and one hundred and thirty millions assumed for current redemption by the banks, the remaining one hundred and fifty-one million, less those lost and destroyed in forty years, can easily be met from the reserve fund of the Treasury.

The success of the plan depends upon the willingness of the banks to assume the current redemption of greenbacks to the amount of twenty per cent. of their capital.

In the opinion of the Committee, the inducements are sufficient. What are they?

First, the banks so consenting will have the exclusive privi-

lege of note issue on assets until the entire one hundred and thirty million of greenbacks are assumed.

Second, an abatement of one per cent. in the tax upon asset note issues on an amount equal to the greenbacks assumed.

Third, the final redemption of the assumed greenbacks in the inverse order of their assumption, so that the tax abatement remains longest with those who avail themselves of it first.

Provision is made for the change from bond secured, to asset note issues, without reference to the present limitation of three millions per month, and in view of the fact that the present bond secured circulation is over three hundred and twenty million dollars, there is little question but that one hundred and thirty millions of it would be promptly changed in order to realize the greatly increased profit which this plan would give.

If it was so changed, as I have no doubt but that it would be, the entire volume of the greenbacks would be retired and canceled within twenty-five years, and any increase of the present amount of bank note circulation would hasten the happy day. Then the grand international choir of England, France, Germany, Austria, Russia, Japan, and last of all the United States, could join in singing the old hymn, "*Believing, we rejoice to see the curse removed*," and so far as the great powers of the world are concerned, fiat paper money would be dead and buried.

ASSET NOTE ISSUES

You have already seen that the bill involves a change in our note issue system.

Seven years ago when I entered Congress and was appointed by Mr. Reed as a member of the Banking and Currency Committee, I was a sincere and enthusiastic advocate of a bond secured currency and an independent bank system.

Persistent inquiry, constant study and patient investigation have brought me squarely to a belief in asset note issues and branch banks, and, I believe, will bring any man there who will pursue the subject with an open mind.

I declare it as my honest belief, as a bank officer with a modest interest in the game, that the sole stake which the banks are now playing for, in dealing out bank notes, is the profit on the

bonds, and that not a single dollar of the three hundred and twenty millions circulation now outstanding remains out with reference to any commercial transaction. How could it be otherwise, in view of the fact that the profit on such circulation, even when all of it is loaned all of the time—which, you know, is impossible—is, in a six per cent. locality, but two-thirds of one per cent. when based on two per cent. bonds; one-sixth of one per cent. on threes; one-twenty-fifth of one per cent. on short fours; one-half of one per cent. on fives, and a loss of about one-fifth of one per cent. on long fours, and the additional fact that at least thirty-two million dollars is locked up in premiums when it should be available for commercial purposes. As the national banking system was instituted for the purpose of making a market for Government bonds, it is only fulfilling the plans of its creator; but conditions have changed in forty years, and there is no reason now why one hundred and ten dollars of capital should be locked up in bonds in order to put one hundred dollars of notes into circulation.

Over against a bond speculation and a possible two-thirds of one per cent. profit on circulation, this bill gives an asset note issue of sixty per cent. of the capital, with a tax of one-fourth of one per cent. on the first twenty per cent. and one and one-fourth per cent. tax on the other forty per cent., and a profit to the banks, above all expenses, taxes, interest on redemption funds, cost of carrying greenbacks, etc., of at least four and one-third per cent., or a corresponding reduction of interest rates to the country, or, preferably, a fair division between the two.

On the three hundred and twenty millions outstanding it means a gain to somebody of more than ten millions annually, and a very much larger amount, proportionately, in those portions of the country where higher interest rates prevail.

There is but one question concerning it. Is it safe?

If three billions of deposits are safe, the three hundred millions of asset notes would be, for they would be controlled by the same men, and would have a prior lien upon the assets.

The fact is that when anyone suggests asset note issues, we at once recall the days of "*wild-cat*" banks and "red-dog" bank bills, with banks started at will under varying State laws or without any law or supervision or responsibility

Under the provisions of this bill a board of three comptrollers

will pass upon the charter, the capital stock must be fully paid in, a rigid Government supervision is provided for, no issues beyond the amount of the capital are permitted under any conditions, and none above sixty per cent. without special approval of the comptrollers; all notes are redeemable in gold, a five per cent. redemption fund must be deposited with the Government in advance, five per cent. more is added to it from taxes on circulation, a special emergency tax of one per cent. on all circulation annually is authorized, if necessary; a first lien on all assets is given, the double liability of the stockholder is continued, and, best of all, prompt and frequent redemptions are compelled in district clearing houses or redemption agencies, where each bank must make provision for redemption of its notes satisfactory to the clearing house as well as to the Board of Control before it can take out any notes for issue at all.

The records of the Treasury show that a tax of 22-100ths of one per cent. on circulation laid annually would have paid in full every note of every failed bank, from the organization of the national banking system to this day, and the margin of safety in the tax prescribed here is nearly ten times greater than that, without any reference to the five per cent. redemption fund.

In my opinion it is safe, far safer than the bank note systems of any other country, and fully as safe as the present bond secured bank note, for I do not believe that a single dollar in either case could ever be defaulted.

It is feared by some that the withdrawal of bond security would disastrously affect the price of bonds. Not so at all; for, even if every note so secured was changed as rapidly as possible under the provisions of the bill, it would take five years, and, including bonds to secure Government deposits, the requirements of the sinking fund would, in that time, take all thus held, saying nothing of savings banks, and insurance companies' purchases at any reasonable price. Objection is also made that asset note issues by large banks under restrictive legislation or monopoly privilege in other countries afford no criterion by which we can judge of such note issues here, where we already have more than four thousand national banks and an open field for more.

Personally, I would have preferred to have limited the issue privilege to banks of not less than half a million of capital, or, better yet, to one large bank in each redemption district, or,

best of all, to one bank in New York City; but none of these propositions is politically possible to-day, and can only become so by a process of evolution, a process which we must admit to be in excellent working order just now.

The principle of asset banking is equally applicable to large or small banks.

Both can be made equally safe.

The difference between the two is that the large bank is an ever-present help in time of trouble, and the little one is apt to be an ever-present trouble when help is needed.

Of course, economy of management is found in the large bank rather than the small one, but, if we are to be controlled by our prejudices, we must be willing to pay for the privilege.

With an increased profit *to the banks shown*, and with safety provided for, the unquestionable advantages to the people of an elastic bank-note issue are so great that it would be presumption to discuss them before a bankers' convention.

BRANCH BANKS.

There is one other feature of the bill—and, I think, the most important one—which I wish to bring to your careful attention, and that is branch banks.

Whenever a man finds himself at variance with the almost universal opinion of mankind it is high time for him to begin to doubt his own infallibility, and this is precisely the position in which the opponent of the branch bank system is placed to-day, for, after a careful examination, including the laws of forty countries, as compiled by Comptroller Eckels in 1896, I can find no government in the world where branch banks are not permitted except our own; and even here they are excluded by the laws of only twenty States and by the National Bank Act, and even that act permits them where State banks come into the system with branches already in existence. The United Kingdom has 116 banks, with 5,515 branches, in a territorial area less than half the size of Texas, 3,517 of them having been established in the past forty-four years.

France made it a condition precedent to the extension of the charter of the Bank of France that a branch should be estab-

lished in every Department of the Republic. Europe and South and Central America are solidly in favor of the system.

Voyaging around the world last year, I found branches of British banks throughout the Philippines acting as commercial drummers for English trade and financial agents for our Government at the same time.

German, English, Russian, every one, our commercial rivals in the Orient, but not an American bank and hardly an American ship.

All through Japan, English, German and Russian banks are taxing American trade by excessive charges for exchange on London, and from Vladivostok to Moscow, straight through Siberia, German branch banks and department stores are laying foundations for the future trade of what is sure to be one of the great markets of the world.

In the City of London alone there are fifty-eight incorporated banks, with four hundred and fifty-three million dollars of capital, and one hundred and seventy-six millions of surplus and undivided profits employed in international trade, with twenty-two hundred and fifty-three branches scattered all over the world, extending English prestige and developing English trade everywhere, and *we pay tribute to them.*

The Committee on Banking and Currency could see no reason why American capital and American enterprise should not do its share in promoting American trade in other lands, and long for the time when American national banks will fly the American flag and care for American interests in all the great capitals of the world.

The bill limits the foreign branch privilege to those national banks which have a full paid up capital of five million dollars, for, if we are to enter upon this work, it should be in such a way as to command the respect and confidence of all, and so insure success.

The field is the world, and duty and self-interest bid us go forth and take it, for the time is soon coming, if it is not already here, when we must fight for markets abroad or find stagnation at home.

But, important as this is, the establishment of a domestic branch banking system is still more worthy of serious consideration.

In 1901 the average capital and surplus of National Banks was

$880,314,389.96, and the current expense of doing business, not including taxes, was $72,043,890.98, or about 87-100ths per cent. on the capital employed.

The average loans for the same year were $2,881,594,312, and the percentage of expense was 25-10ths.

In Germany the Imperial Bank, with average loans of $138,-030,935, had a percentage of expense of 23-10ths, maintaining 330 branches.

The Bank of France, with 392 branches and average loans of $157,040,000, had a percentage of expense of 19-10ths.

When we consider that both of these institutions perform much of the work transacted by the Treasury here, and, in addition to this, that the Bank of France is compelled by law to discount notes as small as one dollar in amount, which adds greatly to the expense account, the difference in cost of maintenance of the branch and independent systems is plainly seen.

The bank loans of the United States on June 29, 1901, as shown by the Comptroller's Report, aggregated $6,491,630,743, and if the economy of the French system could be applied to this business, the banks or the people of the United States would save in a single year $38,949,784.45.

I presume many of you will think that this would be impossible in this country, and I thought so, too, until I procured from the Comptroller's office the loans and expenses of banks, and demonstrated conclusively to myself that a thoroughly developed branch bank system, with large parent banks, would make even greater economies possible.

First let me give you the relative expense of bank management to loans in different parts of the country by grand divisions —from September, 1900, to September, 1901:

	Average loans.	Expenses, not including taxes.	Percentage of expenses to loans.
New England States.	$416,335,831	$9,025,653	2.17
Eastern States.	1,240,251,875	29,285,344	2.36
Southern States.	230,969,403	8,441,336	3.70
Middle States.	769,921,542	20,300,994	2.64
Western States.	126,856,280	5,114,780	4.12
Pacific States.	64,786,931	2,081,549	3.23

This did not entirely satisfy me, so I tried another plan. I compared the ten largest banks in New York City with ten fairly representative New England banks of $100,000 capital each

and ten representative banks in Iowa and Nebraska of $50,000 capital each, and ten representative National banks of $25,000 capital each, in different parts of the country, and found this surprising result:

	Average loans.	Expenses, not including taxes.	Percentage of expenses to loans.
The ten largest New York City banks.	$370,273,620	$6,228,429	1.68
Ten representative New England banks of $100,000 capital each.	3,244,664	88,418	3.94
Ten representative National banks in Iowa and Nebraska of $50,000 capital each.	1,337,803	71,270	5.33
Ten representative National banks of $25,000 capital each in different parts of the country.	448,068	31,382	7.00

So that, if it were possible to conduct all of the banking business of the United States on the same relative basis of expenses to loans as obtained with the ten largest banks in New York City last year, the annual saving to either the banks or the borrowers or both would be $53,231,172.00. Of course I do not assume that this could be done, but I do believe that the twenty-five and fifty and even the one-hundred-thousand-dollar banks could all be converted into branches of large and strong institutions with a great saving to the people and profit to the stockholders.

It is wholly useless to make comparisons of interest rates between this and other countries to show the greater economy of the branch bank system, for like differences will be found between countries where the system is the same, and interest rates depend largely on conditions in no way connected with expense of management; but that the expense account is a very important factor in effecting the general result is clearly shown by the strenuous claims put forward by the independent banks that they could not compete with the branch system, and, therefore, that the existing banks would be driven out of business.

I admit that in many cases this would be true, but in the end it would mean the survival of the fittest and result in inestimable advantage to millions of borrowers who have a right to have their welfare considered in framing legislation.

And I know of no reason why a bank should be restricted to one place of business any more than an insurance company, for a fair distribution of risks is just as essential to safety in one case as in the other.

But I do not believe that the *stockholders* of any bank which has a reason for existence would suffer by the change, for every such institution well established could enlarge its field of work without a proportionate increase of expense.

The process is going on every day now, on the "*community of interest*" plan, and it is far better to have it done *under* the law than *outside* of it.

A few days ago I sold some stock in a Kansas bank at 125 which for the past three years has been unsalable at par.

It was bought by the managers of a Missouri bank, and the organization will hereafter be to all intents and purposes a branch of the larger institution.

The necessities of the community were greater than the limited captial of the little bank could meet, and the expense of management consumed the profits.

Now all the legitimate wants of that vicinity will be met by the aid of the larger bank, and the increased patronage and reduced expenses will fully justify the price paid for the established business and *unused* good will, and all parties will be benefited.

On the other hand, all through the manufacturing towns of the East, banks have been capitalized beyond the normal necessities of the places where they are located, to meet the wants of one or more factories there, and not violate the law concerning the ten per cent. limit, and single name notes bought "*on the street*" have absorbed the surplus funds at rates utterly ruinous to the dividends of the country banks.

In the West and South, where bank capital is limited, an expensive system of re-discounts compels heavy rates to borrowers. A well-regulated branch bank system would adjust itself to these conditions, and not only provide a better distribution of loanable funds, but with like conditions of security and credit is sure to result in lower and more uniform interest charges.

This has been proven beyond dispute in Canada, Great Britain, France and Germany.

How is it in this country?

As shown by the Comptroller's report for 1899, the average discount rate

of New England	National	Banks	was	4.7%,	of	State	banks	5.2%
" Southern	"	"	"	7.4%,	"	"	"	7.4%
" Middle West	"	"	"	5.8%,	"	"	"	6.8%
" Western	"	"	"	8.9%,	"	"	"	10.1%
" Pacific	"	"	"	7.8%,	"	"	"	7.3%

Every banker here knows that the difference between the rates received by the State and National Banks in the same locality is due to the more conservative character of the National Bank loans caused by the restrictions of the law; but he knows also that the great difference in National Bank rates of 4.2% between New England and the Western States is due to an unequal distribution of capital and small independent banks operated at large expense, both of which a well-regulated branch bank system would correct, as it has done in Canada, where, from the Atlantic to the Pacific, discount rates vary less than two per cent.

The bill does not provide for speculative branches, opened here to-day and there to-morrow, but specifies that in each case where a branch is instituted the articles of association shall be amended upon the unanimous vote of the Board of Directors and then only when approved by the Board of Comptrollers in Washington.

Under these circumstances, how absurd it is to talk of lack of local interest, and refusal to aid in development of the towns where branches are, and to fear that the parent bank will suck deposits from the branches and give back nothing in return.

Was it for this or the reverse of this that the French Parliament compelled the Bank of France to establish branches in every Department?

Is it to aggrandize London, or to build up the Colonies and so make money for themselves, that the British Joint Stock Banks have followed the English drum-beat around the world?

Do independent country banks send their funds to their reserve agents at one and one-half or two per cent. when good loans are offered at home at five or six per cent?

Men do not conspire against their own welfare and to claim

that the interests of the permanent customer in the country will be sacrificed to the temporary needs of the city speculator is contrary to the experience of the branch system everywhere.

Indeed, Mr. E. S. Clauston, the General Manager of the Bank of Montreal, in a reply to Hon. J. H. Walker's remarks before our Committee, says:

"Mr. Walker's fear that the customers of a country branch are in times of stringency sacrificed to the necessity of the parent institution, is a phantom of his imagination, for the loans of a branch being less liquid, the knowledge of the difficulty of realizing them and the small proportion they bear to the whole amount, leaves them practically undisturbed in the acutest panic, and their only knowledge of a stringency is imparted through the medium of newspaper articles."

NO BANK MONOPOLY.

It will not do to cry Trusts and talk of Bank Monopoly as argument against this bill, for its very purpose is to strip one man of the power which he now has to paralyze the industries of the land at will, and that man, the Secretary of the Treasury, controlled by party politics.

I can conceive of but one money trust in a country as large as ours, and that is to have all of the currency issued by the Government on the Populist plan.

The very object of this measure is to get as far away from that as possible, to divest the Government of all banking functions, to put the money taken for taxes at once into industrial use, to make the gold standard a reality and not a dream, by compelling gold redemptions by the banks from *their own* reserves instead of at Government expense, and lastly by taking the whole banking business out of politics by putting it under the supervision of a Board of three Comptrollers appointed for periods of twelve years each, with one man's term expiring each four years, so that no Administration can destroy their influence or prestige by packing it with ignorant or inexperi-

enced men, or using it as a headquarters for future political campaigns.

A CHANGE NECESSARY.

And now as Savings Banks Managers and investors in Government bonds, as officers and stockholders in National Banks, what is to be your policy in the future?

That some change must be made in our note issue system is plain to every thinking man.

If the character of security is to be changed, admitting the bonds of States and cities, it only adds to your troubles by bringing another buyer into the field and lessening the returns from your investments.

To longer depend on Government bonds as a basis for circulation is impossible, for the requirements of the sinking fund will soon exhaust the supply, and the increasing premium is even now forcing the withdrawal of circulation as fast as the law permits.

There is no probability whatever of bond issues in the future, for whatever else of good or ill came to us from the Spanish War, it demonstrated as never before that the possibilities of taxation in this country have hardly been touched.

It is a bit of unwritten history of that war that at its beginning Secretary Gage intended to issue but one hundred million dollars of bonds for immediate contingencies, and to rely upon taxation for funds to carry it to a successful conclusion.

He was overruled by those who did not realize as he did the resources of this great country, or who lacked the faith which he possessed in the patriotism of the people.

As a result, two hundred millions of bonds were issued, of which one-half are still outstanding, on which we must continue to pay interest till 1908, or buy them in at heavy premiums.

Meanwhile the money which they represent lies idle in the Treasury.

A few days ago I requested the Treasury Department to make up a balance sheet of receipts and expenditures as they would have appeared from March 31, 1898, to March 31, 1902, if no bonds at all had been issued, and if the Treasury had availed itself of the power given it under the war revenue act to issue certificates of indebtedness at 3 per cent., payable within one year.

It is as follows:

	Receipts.	Expenditures.
Quarter ended June 30, 1898	$97,407,328.04	$140,009,448.89
Fiscal year ended June 30, 1899	515,960,620.18	605,072,179.85
" " " " 30, 1900	567,240,851.89	487,713,791.71
" " " " 30, 1901	587,685,337.53	509,967,353.15
Nine months ended March 31, 1902	419,002,879.50	357,844,901.97
Available cash, exclusive of $100,000,000 gold reserve, March 31, 1898	126,166,943.78	
Proceeds of 3% certificates of indebtedness, Act June 13, 1898	100,000,000.00	
Redemption of 3% certificates with interest for one yaer		103,000,000.00
Transfer of gold to reserve fund under Act March 14, 1900		50,000,000.00
Available cash, exclusive of $150,000,000 gold reserve, March 31, 1902		159,856,285.35
	$2,413,463,960.92	$2,413,463,960.92

It shows that starting with the cash on hand and adding proceeds of the certificates, we could have paid from taxation alone the entire expenses of the four years, amounting to $2,100,607,-675.57, retired all of the certificates with a year's interest added, placed fifty millions in the gold reserve, as we have done, and on the first of April this year, found the Treasury with the comfortable sum of $159,856,285.25 on hand, and the country ready to repeal all war taxation, and all this without any bond issue whatever.

Our past experience will fix our future policy, for the power to issue one year certificates still remains, and with our rapidly increasing wealth and almost limitless taxing power, the necessity for greenbacks and long-time bonds is passing away, never, I trust, to come again.

Something then must be done or our bank note circulation will soon disappear.

It is for you and such as you to say what legislation shall be enacted.

The Committee on Banking and Currency do not claim that this bill is perfect or that the individual members all agree as to every detail of it, but they are a unit in the firm belief that the principles on which it is based are everlastingly right, and they ask your co-operation and the kindly criticism of every sound money man in the United States in what they believe to be the patriotic work of making the monetary system of our beloved land the best which the world can show.

END OF TITLE